

Study of hospital charge-setting practices

ISSUE: Medicare uses charges to set payments for both inpatient acute care and outpatient hospital services. However, little is known about the processes hospitals use to set charges and whether the mark-up of charges over costs varies by service.

KEY POINTS:

To learn more about how hospitals set their charges, MedPAC contracted for a survey of hospital charge master managers and/or supervisors from the finance department. The survey included questions on the goals of the charge master; the process of setting charges; the information used to set charges; a discussion of mark-ups (including variations in mark-ups across services); and more focused questions on two areas that have received considerable policy attention recently, cardiology services and pharmaceuticals.

The contractor conducted a total of 57 interviews, some of which covered multiple hospitals in a system where charges are determined centrally. In all, the respondents represented 251 hospitals. The hospitals came from all regions of the country, but were over-representative of teaching hospitals and under-representative of rural hospitals.

This briefing paper summarizes major themes emerging from the interviews, including the structure of the charge-setting process, the factors that play into it, and the relationship between charges and costs.

ACTION: Commissioners should provide feedback on the findings of the study and their relevance for other MedPAC work.

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